

**CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

**FINANCIAL STATEMENTS**

**MARCH 31, 2008**

# **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

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Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA  
Consultant: Allan W. Nietzke, CPA  
Principals: Eugene R. Gascho, COO  
Brian V. Hazard, CPA JoAnn E. Lakie, CPA

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## INDEPENDENT AUDITOR'S REPORT

Caseville Area Fire Protection Association  
Caseville, Michigan 48725

We have audited the accompanying financial statements of the business-type activities of the Caseville Area Fire Protection Association, Caseville, Michigan, as of and for the year ended March 31, 2008, which comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Caseville Area Fire Protection Association, Caseville, Michigan's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Caseville Area Fire Protection Association, Caseville, Michigan, as of March 31, 2008, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Nietzke & Faupel, PC*  
NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

July 22, 2008

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

# CASEVILLE AREA FIRE PROTECTION ASSOCIATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2008

### Introduction

The discussion and analysis of Caseville Area Fire Protection Association's financial performance provides an overview of the Association's financial activities for the year ended March 31, 2008. This report is a part of the Association's Annual Report.

The purpose of the Association is to provide fire protection, emergency medical services, and other related services to Caseville and Lake Townships. The funding and operation of the Association remains the same under an agreement between the Association and the two Townships. The Association is overseen by the Governing Board which consists of two members from each Township or their appointed representatives. Charges to the Townships for services is the major source of funding for the Board. These charges are budgeted by the Board and then approved by the Board's Governing Board and each of the two Township boards.

### Using the Annual Report

This annual report consists of a series of financial statements as follows:

- ▶ **The Statement of Net Assets** presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets.
- ▶ **The Statement of Revenue, Expenses and Changes in Net Assets** presents information showing how the Board's net assets changed during the most recent year. All changes in net assets are reported on an accrual basis, that is, the event is recorded in the accounting records when the underlying event takes place regardless of the timing of the related cash flows.
- ▶ **The Statement of Cash Flows** presents the financial activities of the Board on a cash received and cash paid basis. This statement also reconciles the change in cash accounts for the Board from the prior year to the current year.
- ▶ **Notes to the Financial Statements** provide additional details underlying the data provided in the financial statements.

### Financial Highlights

The Statement of Net Assets outlines the assets, liabilities and net assets of the Board. The total assets decreased from \$1,963,214 in the prior year to \$1,919,524 in the current year, a decrease of \$43,690. The current year assets include:

	<u>3/31/08</u>		<u>3/31/07</u>	
Unrestricted current assets				
(cash, deposits, and receivables)	\$ 436,968	22.76%	\$ 375,214	19.11%
Capital Assets	<u>1,482,556</u>	<u>77.24%</u>	<u>1,588,000</u>	<u>80.89%</u>
<b>Total Assets</b>	<b><u>\$1,919,524</u></b>	<b><u>100.00%</u></b>	<b><u>\$1,963,214</u></b>	<b><u>100.00%</u></b>

## CASEVILLE AREA FIRE PROTECTION ASSOCIATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2008

The change in assets from the prior year were:

	<u>3/31/08</u>	<u>3/31/07</u>
Unrestricted current assets (cash, deposits, and receivable)	\$ 61,754	\$(116,664)
Capital Assets	<u>(105,444)</u>	<u>96,525</u>
<b>Total Change in Assets</b>	<b>\$ <u>(43,690)</u></b>	<b>\$ <u>20,139</u></b>

The total assets decreased from \$1,963,214 to \$1,919,524. This decrease is due to depreciation expense.

The current year liabilities include:

	<u>3/31/08</u>	<u>3/31/07</u>
Current liabilities	\$ 49,818	\$ 80,000
<b>Total Liabilities</b>	<b>\$ <u>49,818</u></b>	<b>\$ <u>80,000</u></b>

The total liabilities decreased from \$80,000 to \$49,818. This decrease of \$30,182 is due to principal payments on the notes payable for a truck.

The change in net assets \$(769) as shown on the Statement of Revenues, Expenses, and Changes in Net Assets includes:

	<u>03/31/08</u>	<u>3/31/07</u>
Operating Income (loss)	\$(11,781)	\$ 6,987
Non-Operating Revenues	<u>11,012</u>	<u>1,901</u>
<b>Change in net assets</b>	<b>\$ <u>(769)</u></b>	<b>\$ <u>8,888</u></b>

This change in net assets decreased the net assets from \$1,883,214 at the beginning of the year to \$1,869,706 at the end of the year. The total net assets include \$1,442,556 for capital assets net of related debt, with the remainder amount \$427,150 unrestricted.

The Board realizes nearly all of its operating revenue is from two sources: charges for services to the two Townships and fire run fees. Charges for services in the amount of \$237,641 comprise 97.65% of the revenue while fire run fees in the amount of \$5,725 comprise the remaining 2.35%. Total operating revenue decreased by \$16,646 or 6.40% from the prior year. The relative percentages for sources of revenue did not change significantly from one year to the next.

The largest expense is depreciation making up \$129,573 or 50.78% of the expenses. Insurance in the amount of \$18,656 represent 7.31% of the expenses. Personal services and materials makes up the remaining \$106,918 or 41.91% of the total expenses. Total operating expenses increased \$8,962 or 3.64% from the prior year due to the increase in depreciation expense for the year.

## **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2008**

The non-operating revenue of the prior year was \$1,901 as compared to \$11,012 in the current year. In the prior year interest income was \$1,901 compared to \$11,012 in the current year.

During the fiscal year ended March 31, 2008 there were no significant variations between the actual revenues and expenses and the budgeted revenues and expenses as approved by the Governing Board and each of the Township boards. The overall financial position of the Board has not significantly changed from the prior year as the agreement for services and funding between the Board and Townships has remained fundamentally the same.

#### **Requests for Information**

This financial report is designed to provide citizens of Caseville and Lake Townships with a general overview of the Board's finances and to show accountability for the funding it receives. Questions concerning any of the information in this report should be addressed to:

Jerry Platko, Chairman  
Caseville Area Fire Protection Association  
Caseville, MI 48725

# CASEVILLE AREA FIRE PROTECTION ASSOCIATION

## STATEMENT OF NET ASSETS MARCH 31, 2008

### Current assets:

Cash	\$ 419,096	
Accounts receivable	<u>17,872</u>	
Total current assets		\$ 436,968

### Non-current assets:

#### Capital assets:

Land	84,411	
Building and improvements	768,030	
Equipment	1,184,758	
Accumulated depreciation	<u>(554,643)</u>	
Total capital assets, net of accumulated depreciation	<u>1,482,556</u>	
Total non-current assets		1,482,556

Total assets	<u>1,919,524</u>
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### Current liabilities:

Accounts payable	1,389	
Accrued payroll	7,830	
Accrued payroll taxes	599	
Current portion of long term liability	<u>40,000</u>	
Total current liabilities		49,818

Total liabilities:	<u>49,818</u>
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### Net assets:

Investment in capital assets, net of related debt	1,442,556	
Unrestricted	<u>427,150</u>	
Total net assets		<u>\$ 1,869,706</u>

The accompanying notes are an integral part of the financial statements.

# **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

## **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED MARCH 31, 2008**

### **OPERATING REVENUES:**

Charges for services	\$ 237,641	
Fire run income	<u>5,725</u>	
Total operating revenue		\$ 243,366

### **OPERATING EXPENSES:**

Audit fees	2,500	
Depreciation	129,573	
Dues and memberships	100	
Education	1,433	
Fire board wages	5,300	
Gas and oil	1,805	
Interest	3,560	
Insurance	18,656	
Mileage	166	
Office supplies	1,395	
Professional fees	190	
Repairs and maintenance	15,045	
Salaries	56,193	
Supplies	3,403	
Taxes - FICA	5,031	
Telephone	2,973	
Utilities	7,824	
Total operating expenses	<u>255,147</u>	
Operating (loss)		(11,781)

### **NON-OPERATING REVENUES:**

Interest income	<u>11,012</u>	
Total non-operating revenues		<u>11,012</u>
Change in net assets		(769)

**NET ASSETS AT APRIL 1, 2007** 1,883,214

**PRIOR PERIOD ADJUSTMENT** (12,739)

**NET ASSETS AT MARCH 31, 2008** \$ 1,869,706

The accompanying notes are an integral part of the financial statements.



# CASEVILLE AREA FIRE PROTECTION ASSOCIATION

## STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2008

### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from townships for fire services	\$ 237,380
Cash received from others for fire services	5,725
Cash payments to employees	(61,493)
Cash payments to suppliers for materials and services	<u>(67,002)</u>

Net cash provided by operating activities \$ 114,610

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments on note payable	(40,000)
Capital acquisitions	<u>(24,129)</u>

Net cash (used) by capital and related financing activities (64,129)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>11,012</u>
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Net cash provided by investing activities 11,012

Cash and cash equivalents at April 1, 2007	<u>357,603</u>
Cash and cash equivalents at March 31, 2008	<u>\$ 419,096</u>

### RECONCILIATION OF OPERATING (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:

Operating (loss)	\$ (11,781)
Add depreciation expense	129,573
Changes in current assets and current liabilities	
(Increase) in current assets:	
Accounts receivable	(261)
(Decrease) in current liabilities:	
Accounts payable	(1,194)
Accrued payroll	(1,605)
Accrued payroll taxes	(122)
Net cash flows from operating activities	<u>\$ 114,610</u>

The accompanying notes are an integral part of the financial statements.

# **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### **Reporting Entity**

The Caseville Area Fire Protection Association is a jointly governed organization, located in the Village of Caseville, which provides fire protection services to participating townships. The Board has two participating townships; Caseville and Lake, which entered into an interlocal agreement pursuant to the Municipalities Act (MCL 41.801) dated December 14, 1996. The Fire Board consists of five voting members, two from each township and one from the Village of Caseville.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the funds of the Board. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading, if data were not included. Based on the criteria, there are no component units which should be included in the financial statements of the Caseville Area Fire Protection Association.

#### **Measurement Focus, Basis of Accounting and Basis of Presentation**

The Caseville Area Fire Protection Association is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Board follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

#### **Use of Estimates**

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash Deposits**

For purposes of the statement of cash flows, cash and cash equivalents include cash deposits with financial institutions and all certificates of deposit.

# **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Capital Assets**

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$1,000 with a useful life of 2 years or more. Capital assets of the Board are reported at cost or the fair market value at the time of contribution to the Board. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Buildings	40
Land Improvements	15
Equipment	5 -25

#### **Property Taxes/Township Contributions**

The 2007 taxable value of the Caseville and Lake townships were \$21,011,672; and \$8,905,973, respectively, on which ad valorem taxes of .8000 and .8000 mills, respectively, were levied for 2007 fire protection purposes. The total tax contribution from the townships of \$237,641 is recorded as revenue on Board records in and for the year ended March 31, 2008.

The townships collect property taxes levied on December 1 on the taxable valuation of property located in the townships as of the preceding December 31st. The townships transfer the taxes collected to the Board as each township's required contribution.

### **NOTE 2 - CASH DEPOSITS:**

At March 31, 2008, the carrying amount of the Board's deposits was \$419,096 and the bank balance was \$420,866. Of the bank balance, \$200,000 was covered by federal depository insurance and \$220,866 remained uninsured and uncollateralized.

Deposits are carried at cost. Deposits of the Board are made by the Treasurer in banks in the name of the Caseville Area Fire Protection Association. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Board Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. The Board's deposits are in accordance with statutory authority. The Board's investment policy does not specifically address credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk in accordance with GASB Statement 40.

# CASEVILLE AREA FIRE PROTECTION ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008

### NOTE 3 - CHANGES IN CAPITAL ASSETS:

	BALANCE MARCH 31, <u>2007</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	BALANCE MARCH 31, <u>2008</u>
<b>CAPITAL ASSETS:</b>				
Land	\$ 84,411			\$ 84,411
Land Improvements	85,190	\$ 3,817		89,007
Building	679,023			679,023
Equipment	296,602	15,423		312,025
Furniture	9,836	4,889		14,725
Vehicles	<u>858,008</u>			<u>858,008</u>
<b>TOTAL CAPITAL ASSETS</b>	2,013,070	24,129		2,037,199
<b>Less: Accumulated depreciation</b>	<u>(425,070)</u>	<u>(129,573)</u>		<u>(554,643)</u>
<b>NET CAPITAL ASSETS</b>	<u>\$ 1,588,000</u>	<u>\$ (105,444)</u>		<u>\$ 1,482,556</u>

### NOTE 4 – LONG TERM LIABILITIES:

Notes payable to Caseville and Lake Townships are dated March 31, 2006 maturing on February 13, 2009. These notes are due in annual payments of \$41,780 including principal and interest at a fixed rate of 4.45%. The balance of these notes on March 31, 2008 is \$40,000. These notes are secured by the new truck.

The following is a summary of the debt outstanding as of March 31, 2008.

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Fire Truck	1	4.45%	2009	\$40,000

The following is a summary of debt transactions for the year ended March 31, 2008:

#### Fire Truck

Note:

Payable April 1, 2007	\$ 80,000
Retired	<u>40,000</u>
Payable March 31, 2008	<u>\$40,000</u>

#### Maturities for the Notes Payable

Year Ending

March 31,

2009

#### Notes Payable

Fire Truck

Principal

Interest

\$ 40,000

\$ 1,780

\$ 40,000

\$ 1,780

# **CASEVILLE AREA FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008**

### **NOTE 5 – PRIOR PERIOD ADJUSTMENT:**

During the year ended March 31, 2008, it was discovered that current liabilities were not recorded for the year ended March 31, 2007. As of March 31, 2007, the amount of current liabilities was \$12,739. As a result, net assets have been reduced by \$12,739

### **NOTE 6 - RISK MANAGEMENT:**

Significant losses are covered by commercial insurance for all major programs. For the year ended March 31, 2008, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

To the Board  
Caseville Area Fire Protection Association  
Caseville, Michigan

In planning and performing our audit of the financial statements of the business-type activities of the Caseville Area Fire Protection Association as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Caseville Area Fire Protection Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal controls.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Currently, Caseville Area Fire Protection Association's normal practice is to simply pay all cash disbursements without recording these transactions through the accounts payable system. An open invoice file, however, is maintained for all open invoices that remain to be paid. Although this procedure may be effective, it does not maintain the books on the accrual basis of accounting, tends to be inefficient, and becomes more cumbersome and error prone as transaction volume grows. A listing of unpaid invoices should be prepared on a monthly basis that should match the general ledger. This practice would allow for a much stronger control over accounts payable and the amounts reflected in the financial statements.

Currently, an individual who is responsible for other cash functions also prepares the bank reconciliation. This provides an ineffective system of cash control, because it permits the possibility of fraudulent activities due to the lack of an adequate segregation of duties. An individual independent of cash receipt and disbursement activities should review the bank reconciliation for any unusual items and document their approval by initialing the form. This will significantly improve the system of checks and balances necessary for strong cash control.

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Caseville Area Fire Protection Association

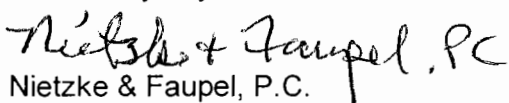
July 22, 2008

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

We noted that duties involving cash receipts are combined whereby one person is completely responsible for the entire cash receipts process. To improve the internal controls over cash receipts, we recommend that the Caseville Area Fire Protection Association establish new procedures for handling incoming checks. We recommend that one person, independent of the accounting records, open the mail and restrictively endorse all incoming checks. This person should keep a daily log of all incoming checks. Copies of the checks should be forwarded to the appropriate person for processing and recording in the accounting system and for timely deposit. A third person should periodically compare and contrast deposit slips to the daily log of incoming checks to ensure that all the receipts were deposited. By segregating the cash handling, recording, and depositing functions, the Caseville Area Fire Protection Association will be able to more accurately track all incoming checks and strengthen the system of internal controls over cash receipts.

The personnel of the Caseville Area Fire Protection Association have the capability to perform monthly internal accounting functions and reports as required by the Board. The personnel of the Caseville Area Fire Protection Association do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with generally accepted accounting principles. We believe this meets the definition of a material weakness under Statement of Auditing Standard #112.

This communication is intended solely for the information and use of management, the Caseville Area Fire Protection Association, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

  
Nietzke & Faupel, P.C.  
Pigeon, Michigan

July 22, 2008